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COUNTRY: Philippines

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SUBJECT: Credit Cooperatives 25X1A6a

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1. The Filipinos, like many other people, are fitted for cooperatives. Before the era of absentee landlordism there was a spontaneous community spirit in the rural communities that showed itself in the custom of cooperating in the erection of a house, the building of an irrigation system, in rice planting or in the harvesting of crops and, even today, some of these customs can still be found existing in parts of the Philippines.

History of Credit Cooperatives in the Philippines

2. The first attempt in cooperative enterprises in the Philippines in the field of finance started in 1907 when Governor Teodoro Sandiko of Bulacan drafted a bill to authorize the creation of a special type of corporation patterned after the Raiffeisen type credit union as existed in Germany in the 1850's and 1860's. It is presumed that Sandiko's interest in credit unions was aroused while he was a student in Europe. Sandiko's bill was presented to the First Philippine Legislature in 1907 and sponsored by Representative Alberto Barreto of Zambales and approved by that body in January 1908. However, the Philippine Commission, which constituted the upper chamber of the legislature at that time, did not approve the bill.
3. In 1914, Bill number 512 entitled, "Act Regulating the Creation and Operation of Rural Credit Cooperative Associations" was presented in the Legislature by Representative Rafael Corpuz of Zambales and passed in February 1914. It was submitted to the Philippine Commission and the result was C. B. number 242 sponsored by Commissioners Rafael and Vincente Singson Encarnacion which was enacted in February 1915 and became Act 2508. However, it remained inoperative until 1916 when an

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amendment was enacted placing upon the director of the Bureau of Agriculture the responsibility of making the necessary plans for establishment of rural credit associations.

4. The same year, 1916, a rural credit section was created under the Agriculture Extension Division of the Bureau of Agriculture and Mr. A. W. Prautch was named Chief with Ludovico Hidrosollo as Assistant. Prautch came to the Philippines from India in 1898 where he had been active for several years in cooperative and rural credit movements.
5. Under Prautch's regime, the first rural credit cooperative association was organized in Cabanatuan, Nueva Ecija in October 1916, and by 1926 there were 544 rural credit cooperatives in 42 provinces. These cooperatives were largely government sponsored and government financed, contrary to Prautch's belief in limited government intervention.
6. From 1937 to 1940, Dr. Frederick C. Howe was another prominent figure in Philippine's cooperative movement. Howe was a U.S. citizen who had been invited by the Philippine Government to serve as technical adviser on cooperative matters of all types embracing credit, consumer, producer, and marketing cooperatives. Howe told me that he felt there was much talk and theorizing about cooperatives but not enough attempt in actual sound organization, operation, and supervision. Howe felt that if 50 to 100 cooperatives specialists were trained to carry on a program in education, organization, and supervision, the service would be invaluable. He was partly responsible for the enactment of Commonwealth Act number 565 which made possible actual organization of all types of cooperatives.
7. By 1939, there were 570 agriculture credit cooperatives in actual operation with 105,000 members and P3,000,000 in circulating capital. However, as impressive as these figures appear, the picture was really a sad one and when the credit cooperative affairs were transferred to the Bureau of Commerce in 1940, it was found that the majority of the cooperatives had become stagnant and most of their funds tied up in old frozen loans. The government made an effort to save these cooperatives which were not of the true Raiffeisen, but political interference and bad management made the task a hopeless one. The government lost more than P2,000,000 in these projects between 1916 and 1940.
8. I attribute the failure of these cooperatives at the time to the following reasons:
 - a. Lack of adequate character and moral responsibility in handling the other fellow's money.
 - b. Poor management and lack of understanding basic principles of cooperation.
 - c. Borrowing money under false pretenses.
 - d. Defective security for loans.
 - e. Political interference, particularly in the collection of loans.
 - f. Lack of relations of unscrupulous officers who took advantage of their position to grant loans to themselves and their friends.
 - g. Too much government money invested in the cooperatives in proportion to their own money and, thus, encouragement for the

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careless manipulations of funds.

- h. Lack of democratic procedure in election of officers.
9. It was in 1938 that we, at the church, organized the first credit Union of the Raiffeisen type in the Philippines at Vigan, Ilocos Sur and only after I had called the officers of the Church of Christ in Vigan together and very thoroughly explained the plan. At first the Security and Exchange Commission delayed the granting of a charter for three months while they attempted to persuade us to organize as an ordinary corporation. They objected to some of the basic principles that we felt were imperative for a sound cooperative such as one vote per member regardless of number of shares owned, refusal to permit proxy voting, etc. Finally, however, the Iglesia ni Cristo (Disciples) National Credit Union was granted a charter in October 1938. (With admonition to run as a corporation but the members were determined to run it as a real Credit Union). By 1941, we were instrumental in organizing 30 credit unions along our Raiffeisen lines with 2,000 members.
10. It was about this time, 1940, that the Philippine Government was beginning to give more serious attention to the cooperatives and I was invited, with several others, to act in an advisory capacity on cooperative matters. In the same year, the first National Institute of Cooperatives was held in Manila under the auspices of the Bureau of Commerce and the Consumer's Cooperative League, in which I participated. There were more than 300 in attendance including college professors, government officials, social, religious, and business leaders, as well as students of economics and others interested in the movement. Miss Helen F. Topping, a visiting international authority on cooperatives, was an active participant.

War II and the Cooperatives

11. During the Japanese invasion, the credit cooperatives were practically wiped out, and the statistical data that we had at the Missionary headquarters was lost or destroyed. However, there were several of the credit unions that we had helped to organize that managed to continue doing business. Batac, Ilocos Norte, under the leadership of Reverend and Mrs Silvestre Morales, and the Pias Credit Union, under Mr. Julio Pascua, made excellent records. They continued operating, changed from Filipino money to provincial war notes, then to Japanese war money, and finally back to sound money in 1945. Unfortunately, Batac got caught with P8,000 of Japanese war money and had to discount all shares 50%. This was done and today this credit union continues to serve the community. Pias also had Japanese war money and had to discount all shares 25%. Some other credit unions did some business but most of them closed during the war years. Since that time some of the old ones were able to reorganize and new ones were established so as of December 1948, there were 60 credit unions, 44 of them functioning rather well, 16 feeble and 10 of the 16 practically dead.

Post War

12. It was after the war, about 1947, that the Philippine Government came in

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strong to try to develop credit cooperatives. In an advisory capacity, I worked with some 200 provincial county agents, (similar to the U.S. county agricultural agents). I endeavored to get across to them the basic principals of the real Rural Credit Union. Likewise, under the auspices of the Department of the Rural Church of the Philippine Federation of Christian Churches, we were instrumental in raising the number of organized Credit Unions to 81 by 1950 with a total of 7,300 members with a total loan of \$800,000.00.

13. My successor in the Philippines, Cornelio M. Ferrer, has advised me the early part of 1953, that largely through the efforts of the Philippine Federation of Christian Churches, they have succeeded in organizing 10 new Credit Unions during 1952. Our Agency continues to be the only source of supplying credit union forms in the Philippines.

Philippine Government and Credit Cooperatives

14. I consider Cornelio Balmaceda, the Director of Commerce, an able, honest, and intelligent man. It is under his supervision that the Cooperative Division operates. However, it seems to be a deep rooted belief of the government that they should participate in the operation of credit unions. During our early days in 1938 to 1941, the government was insistent that they participate in owning shares in the credit union, and that they vote according to shares held. They also strongly urged proxy voting and did not want a person's character to be a consideration for denying a loan.
15. We were always fearful that a too active participation of the government would eventually mean the domination of the credit unions by the large land owners and, thus, defeat the purpose of the credit union which we felt was for the relief of the small peasant farmer.
16. The cooperative division of the government appears reluctant to let the cooperatives start from the bottom and through their own methods supply their own capital. They appear to labor under the impression that it would take too many years and, under present conditions, they can not afford to spend such a long time developing the cooperatives. They seem to think that the movement must be accelerated and can only accomplish this by government participation.
17. I am also of the opinion that the individual money-lenders and the large land owners exert their influence when they can, to retard the development of credit unions. Unfortunately, there is no strong credit union lobby to champion the cause of the credit unions. There is no strong group like the Credit Union National Association in the U.S. The nearest thing to such a group is our church organization, the Rural Church Department of the Philippine Federation of Christian Churches.
18. I believe the Credit Union Movement is fortunate in having a man like Santiago C. Manongdo as head of the Credit Union Bureau, which is under the Cooperative Division of the Bureau of Commerce. I consider Manongdo

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a very able and conscientious man. He is devoting his life to the credit union movement in the Philippines, and I understand he has recently visited Europe, and particularly Denmark, to study credit cooperatives.

Church Efforts in Credit Unions

19. When I first went to the Philippines in 1926, I was disturbed to find the masses of underprivileged Filipinos in debt and being kept in this debt bondage by unscrupulous money lenders and landlords. So when I returned to the U.S., I began to study the operation of Credit Unions in the U.S. and got some actual practice by establishing a successful Credit Union in our Church in Indiana so that when I returned to the Philippines in 1939 as Director of the Rural Church Department, Philippine Federation of Christian Churches, we put on an active campaign for the establishment of Credit Unions. I compare our work in the Philippines to that of the Credit Union National Association (C.U.N.A.) in the U.S., although of course in a much more modest form.
20. We at the Church of Christ were the first active members to organize Credit Unions but were soon joined by the Methodist, Presbyterian, Congregational, United Brethren, and also found people ready and willing to organize in the Occupation and Residential group of Credit Unions.
21. I think a few statistics may better serve to give a general picture of the results of our activities as of the end of 1948. We have noted the figures in round figures and may not be as accurate as we would like to have them, and the Japanese invasion period is shown as a static condition. I do believe, however, it is a good background of the situation. Likewise, no comparison is made to allow for the cost of living index rise which is naturally reflected in the average size of loan.

22. Types of Credit Unions Operating in
The Philippines, December 1948

Associational - Church Parish	21
Occupational	
Colleges	3
Schools	8
Gov't Nat'l	2
Gov't Prov.	1
Hotels	1
Laundry	1
Market Venders	2
	18
Residential	
Rural Community	3
Urban Community	2
	5
TOTAL	44

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23. Location Credit Unions Operating in
Philippines, December 1948

Luzon	37
Negros	5
Leyte	1
Mindanao	<u>1</u>
TOTAL	44

24. Number of Members, Amount of Shares, Amount of Loans
Outstanding from December 1938 - December 1948

<u>Year</u>	<u>Number Credit Unions</u>	<u>Number of Members</u>	<u>Amount of Shares</u>	<u>Average Share</u>	<u>Number of Borrowers</u>	<u>Amount Outstanding Loans</u>	<u>Average Size of Loan</u>
1938	3	150	P 450	P 5.00	20	P 400	20.00
1939	11	600	6,000	10.00	300	4,800	13.00
1940	16	1,200	19,000	16.00	500	15,000	30.00
1941	27	2,000	20,000	15.00	1,000	30,000	30.00
1942	2	800	10,000	13.00	400	10,000	25.00
1943	2	800	10,000	13.00	400	10,000	25.00
1944	2	800	10,000	13.00	400	10,000	25.00
1945	5	950	15,000	16.00	500	15,000	30.00
1946	8	1,100	20,000	18.00	550	25,000	45.00
1947	21	2,500	100,000	40.00	1,200	100,000	83.00
1948	44	3,500	150,000	43.00	2,000	175,000	88.00

Factors Attributed to the Successful Operation of a
Credit Union in the Philippines

25. Before I left the Philippines in 1951, I made an analysis of the reasons that might be attributed to the successful operation of the outstanding Credit Unions in the Philippines. I would emphasize the following contributing factors. They may be elementary but they are important when dealing with people who are largely uneducated in handling their personal money matters.
- A democratic management by leaders well informed about Credit Unions. Leaders who understand the purpose, operation, and service of a credit union.
 - Belief of the members in cooperative credit as a means of improving their economic condition. Confidence in their own ability to meet their credit needs through the Credit Union and, of course, confidence of the members in their leaders.
 - Limited area of operation and close bond of relationship with all members.
 - Sufficiently large membership to maintain feeling of worthwhileness of the project.
 - Frequent meeting of all members and regular reports of all officers.
 - A Credit Committee that meets regularly and frequently.

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- g. An honest, interested, and industrious treasurer who would be bonded. He should submit frequent reports to be posted in the Credit Union office and should also see that the records are well kept.
- h. A regular audit by a supervisory committee and an annual audit by the government.
- i. Loans made to all members needing credit without discrimination or favoritism.
- j. A compulsory saving plan and maintenance of adequate reserve fund.
- k. A close follow-up made of delinquent loans.

26. Factors Contributing to the Failure of Credit Unions in the Philippines

I would list the following factors as the principal contributing reasons for the failure of credit unions in the Philippines.

- a. Lack of adequate leadership, unwillingness of members to assume duties of officers and committeemen, and unwillingness to give the necessary time.
- b. One-man management.
- c. Membership unacquainted with possibilities of a Credit Union to meet their needs and uninterested membership.
- d. Membership too small for successful operation, or too scattered, or too loose a bond of association.
- e. Inefficient treasurer, treasurer living outside the community, unbonded treasurer, and the keeping of poor records by the treasurer.
- f. Undue and harsh criticism of officers before all facts are known.
- g. Members fail to build up savings account.
- h. Borrowing of officers and shortage of funds.
- i. Too few loans made and inadequate follow-up of delinquent loans.
- j. Failure to cooperate with other Credit Unions and carry on a continuous program of education of its members, and lack of effort to enlarge membership.

27. Of course the Credit Union is not the cure all for the many problems of the peasant Philippine farmer, but I think it is one step in the direction of helping him avoid the usurious charges of the money lenders where 5% to 10% per month is the usual rate. The Credit Union goes further in that it begins to educate the peasant in personal money management for they seem to have no training in this direction and, consequently, in the Credit Unions loans must be carefully supervised to see that the loaned money is spent for the purpose it was borrowed. Otherwise, 100 pesos borrowed for seed may be spent on a wedding or dissipated in some similar fashion.

28. The other cooperative movements, such as the Producers Cooperatives, Marketing Cooperatives, and Consumers Cooperatives are also contributing their part, in a limited manner, in helping the peasant; but the big remaining unsolved problem is the question of land redistribution.

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29. I am optimistic of the growth of Credit Unions in the Philippines only when they are operated along the line of the Raiffeisen type that is the self-help type. I also feel that when the Philippine Government insists on participating in the financial set-up of the credit cooperatives and demands representation in the cooperative in proportion to its financial investment, then the cooperative will have a serious struggle to survive. Such cooperatives will merely be a repetition of the earlier unsuccessful attempts. I have found that the Filipino is not one that takes to handling money of others with the same discretion and care and honesty as he does his own or in an undertaking where his own money is involved.

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~~SECURITY INFORMATION~~APPENDIXCommonwealth Act No. 565

30. An Act providing for the organization of Cooperative Associations, authorizing the creation of an agency or designation of an instrumentality of the government to promote and supervise the said Associations, and providing funds for the promotion and supervision of the same.

31. Be it enacted by the National Assembly of the Philippines:

Section 1. Fifteen or more persons, citizens of the Philippines or of the United States residents of the Philippines, may organize a cooperative association for the mutual benefit of the members thereof. Any association or corporation organized under other laws of the Philippines, at least sixty-one per centum of the capital of which is owned by citizens of the Philippines or of the United States, may be affirmative vote of the members or stockholders holding two-thirds of its capital, organized a cooperative association or convert itself into a cooperative association under the provisions of this Act; provided, that no such association or corporation organizing a cooperative association under this Act shall own or hold more than twenty per centum of the authorized capital of the same, unless the majority of the capital of such association or corporation is owned by the government.

Section 2. No member or stockholder of a cooperative association organized under this Act shall be entitled to more than one vote, regardless of the number of shares he may own therein, unless the stockholder be a corporation owned or controlled by the government, whose vote shall be equal to the number of shares it may hold therein.

Section 3. No capital invested in any cooperative association organized under this Act or under any other existing law shall earn more than eight per centum (8%) interest per annum.

Section 4. The provisions of the Corporation Law and of the existing laws regulating agricultural or other cooperative associations, as are not inconsistent with the provisions of this Act, shall apply to the cooperative associations herein authorized.

32. Such cooperative associations, as well as those organized prior to the approval of this act under existing laws at least sixty one per centum of the capital of which is owned by citizens of the Philippines or of the United States, shall, during the first five years from their organization, be exempted from all taxes and government fees of whatever name and description. (See Republic Act No. 89 for amendment)

Section 5. The President of the Philippines, may, by executive order, consolidate in any government agency now existing all government activities relating to the promotion, organization, and supervision of cooperatives or mutual aid associations, or he may create a new agency

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for such purpose, transferring to the same the personnel, equipment, supplies, records, and unexpended balance of appropriations employed in said activities.

Section 6. The President may issue such rules and regulations as may be necessary to promote and help the organization of cooperative associations under this Act as well as those necessary and convenient to carry into effect the objective thereof.

Section 7. The President of the Philippines is authorized to set aside a portion of the fund appropriated under Commonwealth Act No. Four hundred and ninety-eight for the proper carrying out of the purpose of this Act. The sum thus set aside, together with the Agriculture Cooperative Fund created under Commonwealth Act No. One hundred sixteen and with the available appropriations transferred to the agency in charge of the administration of this act, shall constitute a special fund to be known as the National Cooperative Fund and shall be disbursed upon direction of the head thereof, subject to the provisions of Section 7-1 (4) of Commonwealth Act no. Two Hundred and forty-six. All income or receipts derived from the operation of the special fund therein created shall accrue to and form part of the same and shall be available for expenditure and/or investment for the same purposes for which it has been created.

Section 8. This Act shall take effect upon approval.

APPROVED: June 7, 1940

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Commonwealth Act No. 713

33. An Act to amend section Five of Commonwealth Act numbered five hundred and sixty-five entitled: "An Act Providing for the Organization of Cooperative Associations, Authorizing the Creation of an Agency or Designation of an Instrumentality of the Government to Promote and Supervise the said Associations and Providing Funds for the Promotion and Supervision of the same!"

Section 1. Section five of Commonwealth Act Numbered Five hundred and sixty-five is hereby amended so as to read as follows:

"Section 5. There is hereby created a non-stock corporation to be known as the 'National Cooperatives Administration' to take charge of the promotion, organization, and supervision of cooperative and mutual aid associations now existing as well as those which may hereafter be formed under the provisions of this Act and the rules and regulations promulgated thereunder.

34. The Governing body of said corporation shall consist of a board of governors composed of a chairman and four members appointed by the President of the Philippines with the consent of the Commission on Appointments of the Congress of the Philippines. The members of said board who are not in the employ of the Government of the Commonwealth of the Philippines shall each receive a per diem of not exceeding fifteen pesos for each meeting actually attended by them. The Chairman of the Board of Governors shall appoint such technical and subordinate personnel as may be necessary for the proper performance of the functions of the corporation and shall fix their salaries subject to the approval of the board.
35. The Office and principal place of operation of said non-stock corporation shall be in the City of Manila, and branch offices shall be established in such places as may be selected and determined by the Board of Governors.
36. The corporation herein created shall exercise the powers and duties contained in the articles of incorporation and by-laws to be approved by the President of the Philippines and the rules and regulations that may be issued by the President from time to time in conformity with the provisions of Section Six of this Act."

Section 2. The sum of five million pesos is hereby appropriated out of any funds in the National Treasury which together with the other funds mentioned in section seven of Commonwealth Act Numbered Five hundred and sixty-five, will constitute a special fund to be known as the National Cooperative Fund and will be placed at the dispatch of the Board for the promotion of cooperative enterprises in the Philippines. All incomes or receipts derived from the operation of the special funds herein created shall accrue to and form part of the same and shall be available for expenditure and/or investment as the board may direct for the purpose of carrying out the purpose of this Act.

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Section 3. The funds appropriated shall not be released unless and until the Secretary of Finance and the Auditor General shall have Certified to the President that there are existing and available funds in the National Treasury in excess of the sums appropriated in the General appropriation law for the fiscal year ending June thirtieth, nineteen hundred forty-six and the priority appropriations established by law.

Section 4. This Act shall take effect upon its approval.

APPROVED: November 1, 1945

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